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USAID's Review of Multilateral Development Bank Assistance Proposals

Likely to Have Adverse Impacts on the Environment, Natural Resources, Public Health, and Indigenous Peoples

October 2016

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USAID Review of Multilateral Development Bank Assistance Proposals Likely to Have Adverse Impacts on the Environment

Introduction

The U.S. Agency for International Development (USAID) submits this report in compliance with Title XIII of the International Financial Institutions (IFI) Act.[1] The IFI Act instructs USAID to report to Congress on proposals before the multilateral development banks[2] (MDBs) that are likely to have adverse impacts on the environment, natural resources, public health, or indigenous peoples.

This report covers a six-month period (March 2016 through August 2016) and provides information regarding USAID's performance under Title XIII of the IFI Act to relevant House and Senate Committees.

USAID/Washington works with its field missions, as well as other U.S. Government agencies, including the Department of Treasury (Treasury), the Department of State (State), the Environmental Protection Agency (EPA), and the Offices of the U.S. Executive Director (OUSEDs) at the MDBs.

MDB Proposal and Project Review

MDB proposals and projects with the potential for adverse environmental and social impacts are initially identified by USAID/Washington and field missions, EPA, State, Treasury and other U.S. Government agencies, OUSEDs of the MDBs, and/or non-governmental organizations and independent researchers. The criteria for selecting identified MDB projects for USAID Title XIII review include consideration of the potential adverse impacts (direct, indirect, cumulative and associated facilities) on the environment, natural resources, public health, or indigenous peoples, as well as MDB project classification.

To increase the effectiveness of the Title XIII process, USAID engages in the MDB project proposal process as early as possible, typically through site visits and interviews with local, regional and international stakeholders. USAID continues this interaction with relevant stakeholders during the latter stages of the project proposal process when all of the

[1] Title XIII International Financial Institutions Act of 1977, as Amended, includes amendments of 1988 and 2005 Foreign Operations Appropriations Acts. Section 1303(3)(c) instructs USAID to identify assistance proposals likely to have adverse impacts on the environment, natural resources, public health, or indigenous peoples. The proposals identified are transmitted to designated Congressional Committees.

[2] Multilateral Development Banks as defined in Section 1307(g): "In this title, the term 'multilateral development bank ' means the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, the African Development Bank, the African Development Fund, the Asian Development Bank, the Inter-American Development Bank, the Inter-American Investment Corporation, any other institution (other than the International Monetary Fund) specified in section 1701(c)(2), and any subsidiary of any such institution.

environmental and social documentation is available. The U.S. Department of Treasury reviews USAID MDB reports to Congress prior to USAID's submission to Congress.

1. **MDB Proposals with Potential for Adverse Impacts (Affirmative Investigations**): An affirmative investigation is most likely to influence a project when the MDB and project sponsor are engaged early in the proposal development process. Affirmative investigations consist of in-country consultations with a variety of stakeholders, including government, project proponents, and civil society; site visits to the project and surrounding area and meetings with project-affected communities; and document review. Proposals that are selected for an affirmative investigation include: 1) technical assistance or feasibility studies that have the potential to lead to additional MDB or private sector financing for project development; 2) projects under discussion with various MDBs, in which a management decision has not been made on whether to bring these projects into the MDB formal appraisal process; 3) projects that have not initiated the Environmental Impact Assessment/Environmental and Social Impact Assessment (EIA/ESIA) but which do have a pending board date; and/or 4) projects with ESIAs that are selected for affirmative investigations based on information presented in the ESIA showing their potential to cause significant environmental and social impacts.

   Projects in this category include:

   - Nepal – Upper Karnali Hydropower Project (proposed International Finance Corporation)
   - Nepal – Upper Arun Hydropower Project (proposed World Bank)
   - Solomon Islands – Tina River Hydropower Project (proposed WB/IFC)

2. **MDB Project Monitoring Reviews:** Field-based monitoring reviews of an MDB-financed project are conducted any time over the life of financial assistance of the project. Monitoring reviews evaluate the incorporation of U.S. Government recommendations from a previously conducted affirmative investigation or other in-depth ESIA review and assess the effectiveness of safeguard policies to assist in improving MDB safeguard policies and their implementation. The criteria for selecting MDB projects for monitoring review include consideration of their potential adverse impacts (direct, indirect, cumulative and associated facilities) on the environment, natural resources, public health, or indigenous peoples. The project in this category is:

   - Solomon Islands – SolTuna Processing Facility (IFC)

3. **Potential MDB Proposals/Projects for Future Review:** USAID maintains a list of MDB proposals and projects with potential environmental and social impacts. The list falls into two categories: 1) pre-MDB board vote, and 2) post-MDB board approval.
   a. Pre-MDB board vote: USAID and Treasury maintain "upstream" proposal lists which include proposals at various stages of development prior to MDB board

vote. Proposals in this category have been identified based on their potential for adverse impacts (direct, indirect, cumulative and associated facilities) on the environment, natural resources, public health, or indigenous peoples. Proposals in this category are candidates for Washington-based review and/or field-based affirmative investigations.

b. Post-MDB board approval: Projects in this category are candidates for ongoing monitoring reviews pursuant to USAID's Title XIII reporting responsibilities to determine the degree of incorporation and effectiveness of U.S. Government recommendations and the adequacy of safeguard policies. Projects are selected based on consideration of their potential adverse impacts (direct, indirect, cumulative and associated facilities) on the environment, natural resources, public health, and/or indigenous peoples. Projects recently added to the list in this category include:

    - Guinea – CBG Bauxite Mine Expansion (IFC)
    - Laos – Greater Mekong Subregion Biodiversity Conservation Corridors Project (Asian Development Bank [ADB])
    - Paraguay – Minerva S.A. Beef (IFC)
    - Tanzania – Southern Agricultural Growth Corridor of Tanzania (WB)

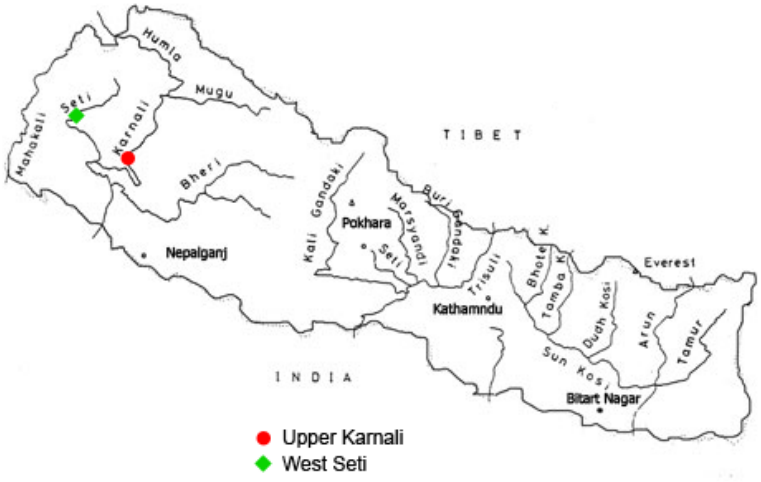
Section 1
MDB Proposals with Potential for Adverse Impacts (Affirmative Investigations)

An affirmative investigation is most likely to influence a project when the MDB and project sponsor are engaged early in the proposal development process. Affirmative investigations consist of in-country consultations with a variety of stakeholders, including government, project proponents, and civil society; site visits to the project and surrounding area and meetings with project-affected communities; and document review. Affirmative investigations are carried out as part of USAID's due diligence responsibilities under the International Financial Institutions Act, Title XIII, Section 1303(a)(3), which requires USAID to review MDB projects with potential adverse environmental and social impacts. The criteria for selecting identified MDB projects for affirmative investigations include consideration of the potential adverse impacts (direct, indirect, cumulative and associated facilities) on the environment, natural resources, public health, or indigenous peoples.

Nepal - Upper Karnali Hydropower Project

The Upper Karnali hydropower project is a 900 megawatts (MW), 64 meter-high, river diversion dam project located on the Karnali River in western Nepal. The project is located in the Dailekh, Surkhet and Achham districts of Nepal. The purpose of the project is to provide electricity for export to India as part of Nepal's hydropower policy and proposed power exchange with India, in which India and Nepal will import or export power from each other depending on the season.[3] The project will provide revenue to the Government of Nepal (GoN), and 12 percent of the electricity generated is expected to supply the domestic grid and free of charge.

The Karnali River is a transboundary river, originating on the Tibetan Plateau near Lake Mansarovar, and a major tributary of the Ganges in India. The Karnali River basin is comprised of six sub-basins and tributaries, of which one tributary is the Seti, where a 750 MW storage hydropower



[3] http://www.sify.com/news/gmr-ifc-to-develop-hydro-power-project-in-nepal-news-international-nmutaxhejdc.html

project (West Seti) is under development. The Karnali River basin is rich in biodiversity, with the lower part of the basin home to the endangered Ganges River Dolphin.

The Upper Karnali hydropower project is in its early stages of development by a subsidiary of GMR Energy, GMR Upper Karnali Hydropower Ltd., the majority shareholder with IFC Infraventures as one of the project developers. The project is being developed under the auspices of the Investment Board of the Government of Nepal (IBN).[4] The Project Development Agreement with the Ministry of Energy was signed on September 19, 2014. In April 2016, a consortium of lenders (including IFC, Asian Development Bank, Japan International Cooperation Agency, European Investment Bank) visited the project site and issued a letter of intent to invest $1.1 billion in the project. In May 2016, GMR requested an additional year to secure financing. The draft Environmental and Social Impact Assessment (ESIA) and Resettlement Action Plan are in the process of being finalized for public disclosure.

USAID completed an affirmative investigation of the proposed project in April 2016. USAID staff, accompanied by U.S. Forest Service staff and USAID/Nepal staff conducted visits to the proposed Upper Karnali dam site, including areas upstream and downstream. The team was in the field for six days and met with GMR Energy Limited, (the project developer), IBN, World Bank Group (WBG), Asian Development Bank (ADB), civil society organizations, researchers, local political leaders and project-affected stakeholders. Summary findings and recommendations are below.[5]

Summary of Findings

1. *Strong political and community support exists for hydropower development on the Karnali River as a means for providing development opportunities to the districts and communities.* There is widespread political and community support for the sustainable development of hydropower projects on the Karnali River due, in part, to the absence of economic development and social services in the project area. Both the GoN and local communities are waiting for the project to provide employment, economic opportunities and social services. However, many of the project's benefits will likely materialize years in the future, given that compensation and associated development activities cannot begin until the project reaches financial closure. Project-affected districts will not begin to receive additional support through royalties until after the project begins operations and the royalties are not specifically targeted to the project-affected communities. This delay broadly restricts investment, development programs and economic growth while communities and local government wait in limbo for the benefits of the hydropower project to materialize.
2. *Historical political sensitivities between Nepal and India influence support for the 900 MW Upper Karnali hydropower project and create increased concerns over project delays.* The major political parties support the project whereas some of the smaller ones do not.

[4] IBN was established in November 2011 and is responsible of facilitating the development of large infrastructure projects including hydropower projects above 500 MW. IBN is currently responsible for five large foreign-investor financed hydropower projects, including the 900 MW Arun 3.

[5] The complete trip report can be found online at http://gemini.info.usaid.gov/egat/envcomp/mdb.php

In discussions with communities and local leaders, positions ranged from complete support with a request for immediate construction to uncertainty and questions that harken back to the historic political sensitivities between Nepal and India. Additionally, continuing delays in the project start date have created high levels of stakeholder anxiety and suspicion of the GoN, IBN, and GMR.

3. *There is a lack of adequate information and effective communication between IBN, GMR, and project-affected communities.* GMR has held more than 500 meetings with local communities and leaders since they signed the project Memorandum of Understanding (MOU) with the GoN in 2008. Most of the meetings appear to have been aimed at gaining information for the Resettlement Action Plan and the ESIA. Regardless, there appears to be a lack of effective communication about the project as a whole, which has resulted in unrealistic expectations about the project timeline. This is reflected in stakeholders' concerns over project delays and a general lack of understanding about the steps necessary before GMR will obtain financing for construction and implementation of local community development activities under the Project Development Agreement (PDA).[6] In all of the discussions, there was an undercurrent of lack of transparency by either IBN or GMR concerning the project.
4. *There is concern over the scope of the project's ESIA and mitigation measures.* International and local consultants have been contracted to undertake the ESIA for the project. In several meetings, stakeholders stated that they were more comfortable talking about social issues than "technical" environmental issues. Nevertheless, concerns were raised about gaps in the ESIA and the ability or commitment of the project sponsor or GoN to implement the mitigation measures.
5. *Communities want to be compensated appropriately, but lack understanding of the extent of the benefits and the role of the Project Development Agreement (PDA).* Discussions highlighted continued uncertainty over local benefits (which range from health clinics to schools to hydropower project shares) and a lack of understanding of the role of the PDA.

Summary of Recommendations

Based on the project area site visits, stakeholder discussions, and available documentation, USAID proposes the following environmental and social recommendations for the Upper Karnali Hydropower Project. In some cases, recommendations are directed to a specific stakeholder(s).

1. *Institute an interim development program for project-affected communities as soon as feasible.* Due to the long lag time between project planning, construction and

[6] The Project Development Agreement is designed to serve as the definitive document that sets out all obligations by the government and the developer to ensure that the interests of both parties are protected and well served for the duration of the 30 - 35 year concession period. In the agreement, the government assures investors that it would avert any possible social, economic, or policy-level uncertainties during the construction phase.
http://ibn.gov.np/uploads/files/Working%20Classification/PDA/Upper%20Karnali%20HEP%20PDA%20(GoN-GMR%20ITD).pdf

operation, project-affected communities are in a state of limbo since they are not receiving benefits from the project and only limited basic services from the GoN. The AI team recommends working with the affected communities to develop an interim development program that would more immediately enhance livelihoods. Depending on communities' priorities, the program could: support the education system (including adult education); provide health services and electricity (via solar or micro-hydro); and improve market access through transportation improvements. The interim development program would be implemented as soon as feasible and, at the latest, within one-year of signing the MOU between the GoN and project sponsor.

2. *Improve communication and provide realistic information to stakeholders on the timeline for project development.* Despite the outreach that GMR has done to date, there are still significant gaps in communication with communities. The questions raised during discussions highlight the critical importance for communities to understand the complexities of developing a hydropower project of this size, including the role of the PDA. Communications need to be improved, and it is recommended that an IBN information officer be stationed in the project area to assist in providing timely information.
3. *Analyze the differential impacts of when and how project-affected communities acquire project shares.* Research has suggested that the economic value of project share offerings in the hydropower project has the potential to warp local incentives, water resource governance, and the due process of stakeholder engagement. Project sponsors – GMR, IFC and IBN – need to fully assess when and how project shares will be offered to project-affected communities and to understand the associated risks so they are better positioned to educate project-affected communities.
4. *Provide information and training sessions on financial management and project shares.* Project-affected communities will be provided with both financial compensation and the option to acquire project shares as a form of benefit sharing. Given the potential for change in livelihoods and loss of land, the communities will need to strengthen their abilities to manage their finances for the long-term. Project shares can be a means for both cost-sharing and risk-sharing of the project development by communities depending on how and when shares are acquired in relation to the project development stage. Information and training on financial/risk management would help to ensure economic incentives do not eclipse the process of stakeholder engagement and negotiations.
5. *Include a provision for increases in compensation due to delayed project activities.* Given the delay in starting project construction, compensation, when finally agreed, should be adjusted for inflation and include penalties to reflect delays. This is relevant for assets like land, but should be equally applicable to any "lost livelihood" amounts.
6. *Ensure downstream impacts are robustly assessed and avoidance/mitigation measures proposed in the ESIA and Cumulative Impact Assessment (CIA).*[7] Major businesses (e.g., rafting and adventure tourism) and local livelihoods dependent on Bardia National Park, Terai grasslands, ecotourism, fisheries, and irrigation systems will be impacted.

[7] IFC's Good Practice Handbook "Cumulative Impact Assessment and Management: Guidance for the Private Sector in Emerging Markets" states that private developers need to take into consideration other projects and external factors that may affect key resource receptors and by not doing so "may place the developer's own efforts at risk and also negatively affect its reputation." (page 10)

These impacts need to be accurately identified, and appropriate data needs to be collected and analyzed in the alternatives analysis in the ESIA and CIA. Other proposed developments, including the West Seti Hydropower Storage Project[8] on a major tributary of the Karnali river and hydropower development[9] on the Karnali River in the Tibetan Autonomous Region (China), will need to be included in the CIA. Examples of additional information to inform the ESIA and CIA include: a) baseline data addressing the information gaps for critical resource receptors,[10] such as mahseer (*Tor* spp.) and long distance migratory freshwater eel (*Anguilla* spp.) migration patterns; b) data on the prey base and habitat of Nepal's population of Ganges River Dolphin (*Platanista gangetica);* c) hydrological data and analysis taking into account other hydropower projects; d) data on sedimentation and nutrients; and e) data on ecosystem services.

7. *Coordinate with river basin planning process.* The project sponsors –GMR, IFC and IBN – should coordinate with the World Bank-supported Power Sector Reform and Sustainable Hydropower Development Program's plans to conduct a basin-wide planning process for the Karnali Basin. This would include conducting and integrating a Strategic Environmental Assessment into the decision making process to help prioritize key areas and processes in the river system that need to be protected and maintained.

Nepal - Upper Arun Hydropower Project

The proposed Upper Arun hydropower project is expected to be a 335 MW river diversion dam project, located on the Arun River. The project is located in the Sankhuwasabha District of eastern Nepal, about 15 km south of the international border with Tibet. The Arun River is part of the Sapta Koshi River Basin in eastern Nepal, which consists of a network of seven major rivers. The Arun River is one of four rivers in the system which originates from a glacier on the northern slope of Mt. Xixabangma Feng on the Tibetan Plateau.

The Arun River borders the Makalu Barun National Park, the eastern extension of the Sagarmatha National Park. Makalu-Barun National Park is included in the Sacred

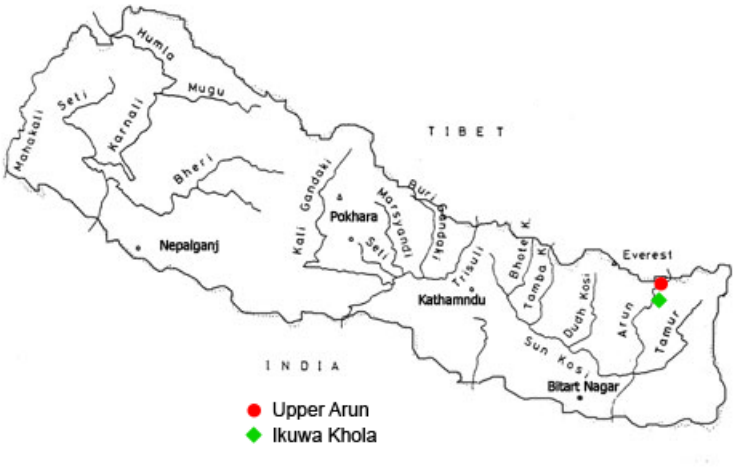
[8] The West Seti Hydropower Storage Project is a 750 MW, 195-metre (640 ft) high concrete-face rock-fill dam. The dam's catchment area covers the upper 4,022 square kilometres (1,553 sq mi) of the Seti River Basin. The power station will be located approximately 63 kilometres (39 mi) upstream of the Seti River confluence with the Karnali River, with the dam site located a further 19.2 kilometres (11.9 mi) upstream. Similar to Upper Karnali, IBN is responsible for facilitating the development of this project. http://www.nepalenergyforum.com/nea-china-three-gorges-close-to-signing-jv-deal/; https://thehimalayantimes.com/business/joint-agreement-west-seti-project-likely-signed-month/

[9] The Pulan Hydropower Project is reported to be planned just north of the Nepal border on the Karnali River in Tibet Autonomous Region (China). http://stsfor.org/content/hydro-power-projects-yarlung-tsangpo-and-concerns-india

[10] Critical resource receptors include: 1) physical features, habitats, wildlife populations (e.g., biodiversity), 2) ecosystem services, 3) natural processes (e.g., water and nutrient cycles, microclimate), 4) social conditions (e.g., health, economics), or 5) cultural aspects (e.g., traditional spiritual ceremonies).

Himalayan Landscape which extends across the Arun River into the Kanchenjunga Conservation Area in Nepal, and into India and Bhutan.[11]

A number of ethnic groups (indigenous peoples) live in this remote area, including Tamang, Gurung, Rai, Bahun and Chetri. The relative size of each ethnic group varies within villages. Livelihoods are primarily based on agriculture (rice, maize, millet, potato) and livestock. The Arun River's tributaries are used for fishing, whereas the main artery of the river is too rough for fishing near most villages.



The Upper Arun hydropower project is in its early stages of development by the Nepal Electricity Authority (NEA). In 2015, the World Bank provided financing to NEA to hire: a) international consultants to conduct the project feasibility study and the environmental and social impact assessment (ESIA); and b) environmental and social experts to serve on an independent oversight panel for the Upper Arun and Ikhuwa Khola hydropower projects. At the time of USAID's visit (April-May 2016), NEA was in the process of selecting the international consultants. NEA is also developing the 30 MW Ikhuwa Khola hydropower project as part of the benefit-sharing arrangement with community members.

USAID conducted an affirmative investigation in April-May 2016, which builds upon and complements the earlier USAID affirmative investigation to the Upper Arun hydropower project conducted in 2014. Due to weather conditions during the 2014 affirmative investigation, the area of the proposed dam site,[12] headrace tunnel, and upstream reaches of the Arun Valley were not visited. Given the remoteness of the Upper Arun hydropower project area, a follow-up visit was conducted specifically to the project areas not visited during the earlier trip. This report provides additional findings and proposed recommendations specific to the Upper Arun hydropower project areas to address potentially significant environmental and social impacts, including mitigation measures or project alternatives. Due to relatively recent landslides, it was not possible to gain access to the Ikhuwa Khola hydropower project site.

[11] In 2006, the GoN adopted the transboundary Sacred Himalayan Landscape, encompassing 39,021km^2, of which about 73.5 percent falls in Nepal and the rest in India and Bhutan. The Sacred Himalayan Landscape extends from the Langtang National Park in central Nepal through India's Kangchenjunga Complex to the Toorsa Strict Nature Reserve in western Bhutan.

[12] The proposed dam site is located in a narrow gorge about 350 m upstream of the confluence with Chepuwa Khola near Chepuwa Village.

Similar to the earlier visit, the team met with stakeholders affected by the project, the GoN, World Bank, civil society organizations, and researchers. Summary findings and additional recommendations, building onto the 2014 recommendations are below. When additional information becomes available, USAID may review and revise recommendations, as warranted, and provide updates in future reports.[13]

Summary of Findings

1. *A number of indigenous peoples (ethnic groups) live in remote areas in the Arun Basin with limited development opportunities and limited GoN support.* Indigenous peoples living within the area include the Tamang, Gurung, Rai, and Bhodi, each with their own local culture and languages. The relative size of each indigenous peoples group varies within villages. Livelihoods are primarily subsistence, based on agriculture (rice, maize, millet, potato) and livestock. Recently, some communities have been expanding cardamom production for sale at the expense of traditionally grown food crops. The sale of cardamom has contributed to improved livelihoods with the additional cash income. The Arun River and its tributaries are used for subsistence fishing by some of the indigenous peoples.
2. *Community members are supportive of the national strategic road[14] that will connect Nepal to India at Biratnagar and Nepal to China at Kimathangka when finished.* The national strategic road currently ends at Num, although the stretch between Chichila and Num is only consistently passable outside of the rainy season. The bridge for vehicle traffic has not been built over the Arun River and road construction up to Gadhidanda is in its early stages. Reportedly, 8-12 km of road is completed from the Chinese border starting from Kimathangka. Communities visited did not know the exact route, but the Chepuwa community is looking forward to their area being served by a road. The national strategic road will provide access to the Upper Arun project's access roads and project areas. Currently, people and goods move from Num into the Arun Valley by foot or mule.
3. *Most communities, above Hatiya village,[15] were either unaware or had limited knowledge of the Upper Arun hydropower project.* Communities aware of the Upper Arun hydropower project view the project as a means for providing development opportunities. Local villagers and local government are waiting for economic opportunities and social services which they believe the national strategic road and the hydropower project will provide. However, many of the project's benefits will likely be years in the future, given that compensation and associated development activities cannot commence until the project reaches financial closure. This delay broadly restricts investment, development programs and economic growth while villagers and government wait in limbo for the benefits of the hydropower project to materialize.

[13] The complete trip report can be found online at http://gemini.info.usaid.gov/egat/envcomp/mdb.php
[14] The GoN Department of Roads is constructing six roads across Nepal connecting Nepal, India and China.
[15] Hatiya village is below the dam site.

4. *Project-affected community households will be provided with both financial compensation and the option to acquire project shares in Ikhuwa Khola hydropower project as part of the benefit-sharing arrangements.* Additionally, electricity generated by the Ikhuwa Khola hydropower project will be provided to the project-affected communities.
5. *Community members report changes in the environment.* Some community members stated that they have seen an increase in the flow of the Arun River, which they attributed to rapid snow melt. Community members stated that they used to see snow all over the hills 20-30 years ago, but now primarily find snow on the high mountains. They reported that mosquitos are more prevalent than in years past, attributing it to increased temperatures. Communities also reported increased deforestation due to home construction and continued reliance on wood fires. In one area, several springs are reported to have dried up.

Summary of Recommendations

Based on the project area site visits, stakeholder discussions, and available documentation, USAID proposes the following environmental and social recommendations for the Upper Arun Hydropower Project. In some cases, recommendations are directed to a specific stakeholder.

1. *Institute an interim development program for project-affected communities as soon as feasible.* Due to the long time required for project planning, construction and operation, project-affected communities are in a state of limbo since they are not receiving benefits from the project and only limited basic services from the GoN. The AI team recommends working with the affected communities to develop an interim development program that would more immediately enhance livelihoods. Depending on communities' priorities, the program could support the education system (including adult education), provide health services and electricity (via solar or micro-hydro), and improve market access through transportation improvements. The interim development program would be implemented as soon as feasible and, at the latest, within one year of signing the Memorandum of Understanding between the GoN and project sponsor.
2. *Ensure that there is effective communication and realistic information provided to project-affected communities on the timeline for project development.* This recommendation is based on findings from other hydropower projects visited in Nepal which were further along in the project development process. When project consultations are initiated, NEA needs to ensure that there is effective communication and that realistic information is provided to stakeholders on the potential positive and negative environmental and social impacts of the project, as well as the project timeline.
3. *Ensure the meaningful participation of impacted indigenous peoples in the design, implementation, monitoring and evaluation of the projects.* The government should develop, in cooperation with indigenous peoples, robust and meaningful consultation and community procedures and guidelines, in alignment with International Labour Organization Convention 169 which was ratified by the Government of Nepal in 2007. Analytical, technical and financial and support should be provided for communities to engage in river-basin and project planning to help ensure that

infrastructure development will cause no harm, and enable their livelihoods to be culturally and environmentally sustainable.

4. *Assess the differential impacts of when and how project-affected communities acquire project shares.* Project-affected communities will be provided with both financial compensation and the option to acquire project shares in the Ikhuwa Khola hydropower project as part of the benefit-sharing arrangements. Research has suggested that the economic value of project share offerings has the potential to warp local incentives, water resource governance, and the due process of stakeholder engagement. Project sponsors – GoN, NEA and WB – need to fully assess when and how project shares will be offered to project-affected communities and to understand the associated risks so they are better positioned to inform project-affected communities.
5. *Provide information and training sessions on financial management and project shares.* Given the potential for change in livelihoods and increased reliance on and access to the market economy, the project-affected communities will need to strengthen their abilities to manage their finances for the long-term. Project shares can be a means for both cost-sharing and risk-sharing of the project development by communities depending on how and when shares are acquired in relation to the project development stage. Information and training on financial/risk management would help to ensure economic incentives do not eclipse the process of stakeholder engagement and negotiations.
6. *Ensure downstream impacts are robustly assessed and avoided/mitigated.* Local livelihoods dependent on the Arun River ecosystem will be impacted. Project-affected groups will need to be identified and impacts of project construction and operation assessed and included in the alternatives analysis and cumulative impact analysis.
7. *Coordinate with river basin planning process.* The project sponsor should coordinate with the World Bank-supported Power Sector Reform and Sustainable Hydropower Development Program's plans to conduct a basin-wide planning process for the Arun Basin. This would include conducting and integrating a Strategic Environmental Assessment into the decision making process to help prioritize key areas and processes in the river system that need to be protected and maintained. There is at least one proposed hydropower project upstream of Upper Arun in Nepal and five hydropower projects proposed north of the Nepal border in the Tibet Autonomous Region (China). Additionally, a number of hydropower projects are proposed on tributaries of the Arun River.
8. *Ensure that the stretch of the National Strategic Road that is required for the Upper Arun hydropower project is built following international best practices.* The Upper Arun hydropower project will need the national strategic road built before it can begin to move equipment and access the project's roads and project sites. It will be important that international best practices are followed. The national strategic road should be considered an associated facility since access to the project area depends on the construction of the road.
9. *NEA and the WB need to ensure coordination and consistency in the development between Arun 3 hydropower project, Upper Arun hydropower project, Ikhuwa Khola hydropower project and other proposed/planned hydropower projects in the Basin.* To ensure coordination and consistency in Arun Basin hydropower development, a workshop is

recommended to bring developers, consultants and impacted community representatives together to lay the foundation for robust and consistent methodology for: a) baseline data collection for the various ESIAs; b) subsequent monitoring during construction and operation; and 3) information sharing among the developers. Regular communication between Upper Arun, Ikhuwa Khola and Arun 3 projects' environmental and social experts is recommended.

10. *Additional environmental issues.* At this point, USAID technical experts are not in a position to make any firm recommendations on the environmental impacts beyond the previous 2014 recommendations until more information becomes available. USAID's review will assess whether the following issues, among others including earlier recommendations, have been considered and addressed:
    - The cumulative impact assessment should include the proposed hydropower projects in the Tibet Autonomous Region (China) and other developments that will impact the same receptors (e.g., fisheries) and be integrated into the ESIA process.
    - The ESIA consultations should be conducted in a culturally-appropriate manner and WB safeguards for indigenous peoples should be followed.
    - Baseline data collection should cover: a) community members' health status; b) natural resources gathered and used by the communities; c) what products are locally sourced and which products are brought in; d) migration patterns and critical habitat of key aquatic species; e) changes in sedimentation deposit on productivity of agricultural productivity and natural habitat in the Terai; and f) ecosystem services.

Solomon Islands – Tina River Hydropower Project

The Tina River Hydropower development project is located on the north of Guadalcanal approximately 30 km east of Honiara. The WB initially identified the project by the WB in 2006, with additional WB-funded prefeasibility studies conducted in 2007. These studies concluded that the Tina River, a major tributary of the Ngalimbui River, appeared to have the best hydropower potential. Since that time, the WB, with other donors, have been supporting the Solomon Islands Government (SIG) through transaction advisory services, and financial and technical assistance to the Tina River Hydropower Project office under the Ministry of Mines, Energy and Rural Electrification. The WB has also been supporting the technical and financial capacity development of the Solomon Islands Electricity Authority.

The project, located within the Bahomea and Malango regions of Central Guadalcanal, affects four tribes (Kochiablo, Roha, Buhu Garo and Vuralingi.) A fifth tribe, the Uluna-Sutahuri, was later determined to be customary owners of the land on the right bank of the proposed reservoir and thus were included in compensation negotiations. The project has established partnerships with the tribes owning the land used for the hydroprower development. It has also designed a community benefit sharing scheme for all members of the Malango-Bahomea community, which includes all the tribes and residents of the area. Recently, the Roha Tribe members received $6.9 million from the SIG as the first in a

Map of the Solomon Islands. Inset shows location of Tina River Hydropower Project on Guadalcanal.

series of benefits agreed with the core landowning tribes.

USAID is following this project due to potential environmental and social impacts of hydropower projects which include: negative impacts from sedimentation, nutrient flows downstream of the river impacting aquatic ecosystems; impacts on fisheries and migrations; impacts on riparian and aquatic habitats; impacts on terrestrial habitat and species; and involuntary resettlement (physical and/or economic). Additionally, potential environmental and social impacts of transmission lines include: associated facilities; impacts on terrestrial habitat and species; and involuntary resettlement (physical and/or economic).

An affirmative investigation was conducted in August 2016 to gain a better understanding of the project. The team visited the project and surrounding areas, in addition to meeting

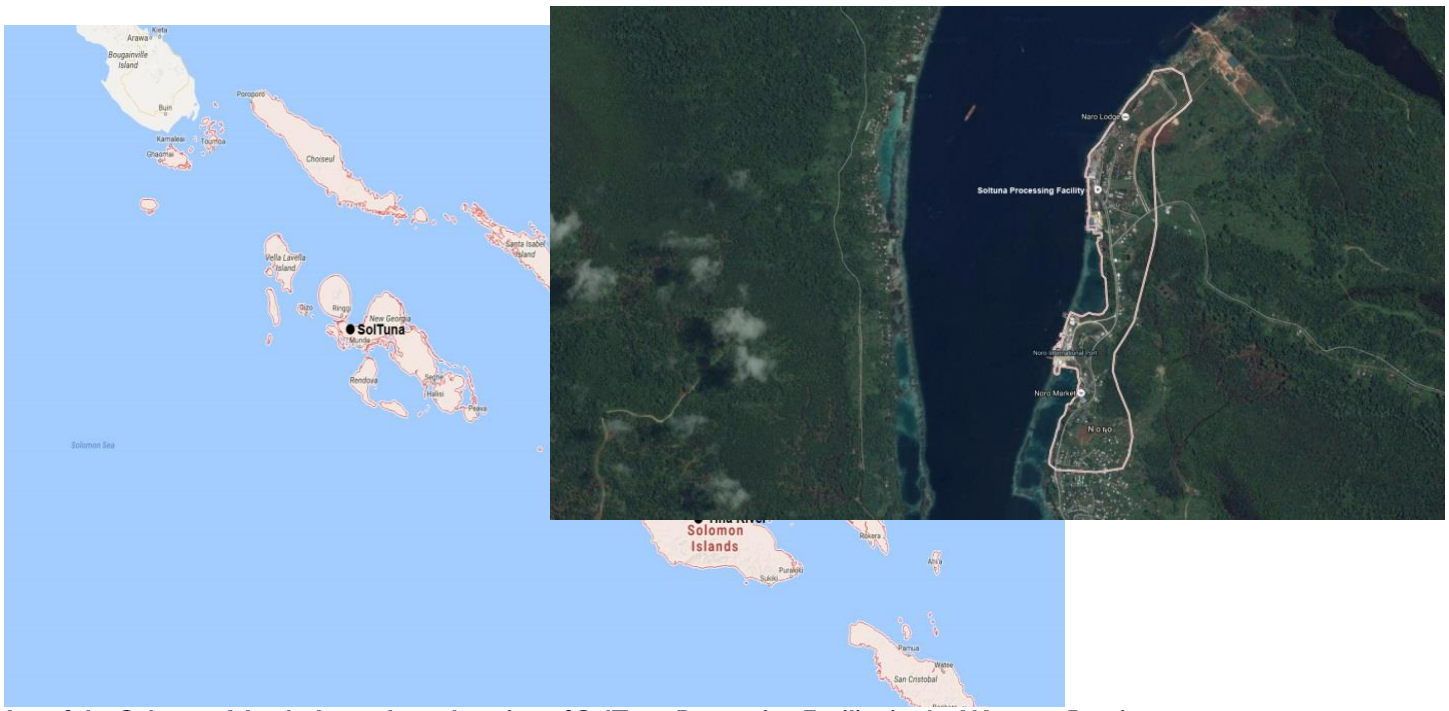
with stakeholders affected by the project, the SIG, WB, civil society organizations, and researchers. Environmental and social information obtained from the site visit and documentation will be used to provide recommendations to the WB and SIG. A trip report will be made available to the public.

Section 2
MDB Project Monitoring Reviews

Field-based monitoring reviews of MDB financed projects or proposals are conducted anytime over the life of financial assistance to the projects. Monitoring reviews evaluate the incorporation of U.S. Government recommendations from previously-conducted affirmative investigations or other in-depth ESIA reviews, and assess the effectiveness of safeguard policies to assist in improving MDB safeguard policies and their implementation. The criteria for selecting identified MDB projects for monitoring review include consideration of the potential adverse impacts (direct, indirect, cumulative and associated facilities) on the environment, natural resources, public health, or indigenous peoples.

Solomon Islands – SolTuna Processing Facility Expansion

SolTuna Limited (SolTuna) is the Solomon Islands' only tuna processing operation comprising a cannery, loining, and cold storage facility based in Noro, Western Province. The Company commenced operations in 1973 as Solomon Taiyo Limited, a 100 percent pole and line tuna fishing operation. In 2010, Tri Marine Group of Companies acquired controlling shares of the facility.



Map of the Solomon Islands. Inset shows location of SolTuna Processing Facility in the Western Province.

IFC's $10 million loan is part of a $27 million upgrade and expansion project, which is expected to increase the company's processing capacity from 90 tons per day to 150 tons per day. The loan will also allow SolTuna to upgrade and refurbish the Noro wharf facilities, which were damaged during the 2007 tsunami, and to construct a new cold-storage facility, wastewater treatment plant and additional employee housing.

SolTuna obtains its product from the National Fisheries Development Ltd. (NFD), based in Noro. NFD is the Solomon Islands' only domestic tuna fishing operation. It is a wholly owned subsidiary of the Tri Marine Group of Companies. NFD's fleet of five purse seiners[16] and two pole-line boats catches around 25 percent of the commercially caught tuna in the Solomon Islands. It is expected to catch about 28,000 million tons (MT) of fish in 2016. NFD also holds 30 of the 100 long liner licenses in the Solomon Islands.

NFD and Tri Marine led the effort to secure Marine Stewardship Council (MSC) certification[17] in the Solomon Islands and will now be able to increase the supply of tuna eligible to be sold with the MSC label.

USAID's (MDB Report to Congress - October 2013) review of the proposal prior to board approval focused on the following areas:

- Climate change – Climate variability has demonstrable impacts on the abundance, concentration, location, and catchability[18] of tropical tuna stocks. At the time of USAID's review, it was not clear whether a climate change assessment was conducted to determine short-term, seasonal and multi-year patterns of variability in the location and productivity of these optimal tuna habitat zones.
- Gender – Recognizing that SolTuna is the largest employer in Noro, with about 1,500 staff, 65 percent of whom are women, USAID recommends that the Pacific Women in Business program provide baseline data to inform program design and additional advisory work financed by the IFC. This would help ensure gender equity for additional training, fostering equality in job allocation in the factory, and to help prevent a potential increase of sex work in areas with visiting fishing vessels – a serious and growing concern in the Solomon Islands.
- Tuna species – The targeting of albacore as the primary species is a concern as albacore is already under stress and may be overharvested. The expansion from 90 to 150 MT/day of output should consider focusing on skipjack as opposed to other species, like albacore, that are under greater stress in the region. Skipjack[19] resources are strong, although there is the need to look at maximization or optimization of the benefits from that resource.

[16] Seiner - is a vessel that uses purse seine gear which is a large net that is used to encircle a school of tuna and closed at the bottom to entrap them.
[17] Fisheries businesses can be certified based on the MSC standards that demonstrate that they follow practices that support the sustainability of wild-capture fisheries.
[18] A concept in fishery biology which reflects the efficiency of a particular fishery.
[19] A medium-sized perciform fish in the tuna family, Scombridae.

- Extent of "observer coverage"[20] – Based on the project documents, the actual observer coverage is approximately five percent, which is insufficient.[21] It will be important to work with the government to increase observer coverage to the full commitment within an appropriate time frame.

USAID conducted a monitoring review of SolTuna in August 2016. The purpose of the review was to assess the adequacy of IFC safeguard implementation for the project and incorporation and effectiveness of any USG recommendations. The team visited the project and surrounding areas, and met with stakeholders affected by the project, the Solomon Island Government, IFC, civil society organizations, and researchers. Environmental and social information obtained from the site visit and documentation will be used to provide recommendations to SolTuna, IFC and SIG. A trip report will be made available to the public and included in the April 2017 MDB Report to Congress.

[20]Vessels have onboard observers, whose role includes verification of fishing locations, reporting of fish caught on vessels, and compliance with national and international requirements. Observers record size and length of target species, where boats fail to obey the law, fishing locations, and interactions with species of "special interest," which are the sharks, sea turtles and whales also caught in fishing gear.

[21] If the observer samples are an unbiased sample of the fishery, literature review and simulation studies suggest that coverage levels of at least 20 percent for common species, and 50 percent for rare species, would give reasonably good estimates of total bycatch. The required level of coverage, however, could be much higher or much lower for a particular fishery, depending on the size of the fishery, distribution of catch and bycatch, and spatial stratification of the fishery. More importantly, estimates of total bycatch from observer data can be biased (i.e., not accurate) if the coverage is less than 100 percent. (How Much Observer Coverage Is Enough To Adequately Estimate Bycatch? E. Babcock and E. Pikitch Pew Institute for Ocean Science (2003).)

Section 3
Potential MDB Proposals/Projects for Future Review

USAID maintains a list of MDB proposals and projects with potential environmental and social impacts. The list falls into two categories: 1) pre-MDB board vote, and 2) post-MDB board approval. USAID monitors the status of selected projects in the project proposal process. These proposals may not yet be in the MDB pipelines, may not have initiated the ESIA and/or may not be scheduled for a board vote. USAID will monitor the status of these proposals, which may be considered for future Title XIII reviews; updated information will be provided when available. USAID also monitors some projects that have been financed and are either in construction or operation phase. Criteria used for selecting projects include potential impacts (direct, indirect, cumulative and associated facilities) on biodiversity, environment/natural resources, indigenous peoples, or public health. These lists are not inclusive of all proposals or projects that could have adverse environmental and social impacts, but provide an overview of the types of projects that are followed.

Projects recently added to USAID's list of potential projects to review:

Post-MDB board vote:

Guinea – CBG Bauxite Mine (IFC)

The Compagnie des Bauxites de Guinée (CBG) is the largest bauxite producer and company in Guinea, accounting for approximately 80 percent of total national export revenues, 12 percent of government revenues and seven percent of GDP. CBG is also Guinea's largest employer, with around 5,000 workers. CBG's shareholders are the Guinean government, which holds 49 percent of the shares, and Halco, which holds the other 51 percent. Halco is a consortium made up of Alcoa (USA, 45 percent), Rio Tinto (UK, 45 percent) and Dadco (Guernsey Channel Islands - UK, 10 percent).

The project entails the expansion of CBG's Sangaredi bauxite mine, processing plant, rail and port expansion to accommodate an increased production capacity from 13.5 million tons per year (mtpa) to 18.5 mtpa by 2018.

The total project cost is estimated at $750 million. The IFC board approved a $135 million loan in March 2016. The USG abstained at the vote.

USAID is following this project due to deficiencies in the project's Environmental and Social Impact Assessment which resulted in an incomplete analysis and development of appropriate mitigation measures. Deficiencies include: 1) the Cumulative Impact Assessment provided little quantitative data and analyses that are essential to identifying avoidance measures, developing appropriate mitigation measures and monitoring the effectiveness of the mitigation measures; and 2) there was inadequate baseline data and assessment of key activities (e.g., hydrogeological/hydraulic regime and the potential

impact on local communities, sensitive habitats/species and water use/management). Impacts of greatest concern include:

1. CBG operations in and near critical habitat which supports 23 highly threatened and/or restricted-range species, of which 15 species are terrestrial (including the West African chimpanzee) and eight are marine species (including the hawksbill turtle and the Atlantic humpback dolphin); and
2. The project will physically and economically displace a total of about 3,200 people by 2022, starting with about 550 people in 2018.

USAID is also following this project due the biodiversity offset that is being planned for CBG operations that impact critical habitat. The effectiveness of biodiversity offsets is highly uncertain as they are challenging to design, implement, monitor, and sustain over the long-term, even under the best of circumstances. CBG has committed $20 milion for the offset.

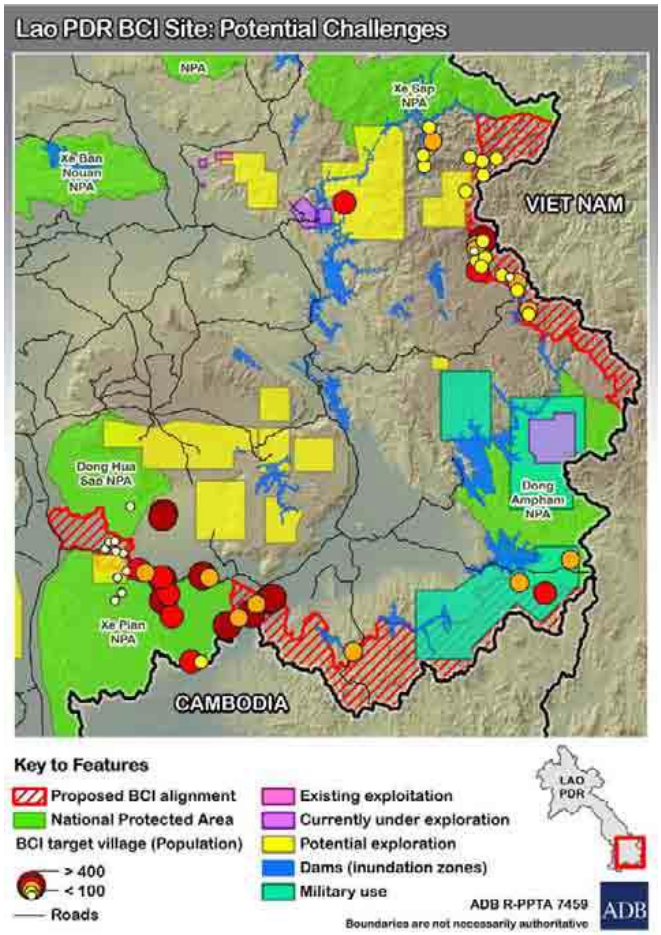
Laos - Greater Mekong Subregion Biodiversity Conservation Corridors Project (ADB)

The Biodiversity Conservation Corridors Initiative (BCI) is part of an ADB regional assistance program intended to address the probable impacts on the environment resulting from economic development in the Greater Mekong Subregion (GMS). Biodiversity Conservation Corridors (BCC)[22] overlap with the proposed economic corridors in Cambodia, Laos, and Vietnam. The BCI was initially funded at $400,000, approved by the board in December 2004, and officially launched in April 2006. The long-term goal of the BCI is that by 2015, GMS countries will have established priority biodiversity conservation landscapes and corridors for maintaining the quality of ecosystems and sustainable use of natural resources while improving people's livelihoods.

In 2011, ADB provided the Government of Laos additional grant funds[23] to implement the GMS BCC Project in five districts (69 villages) across Attapeu, Champasak and Sekong provinces in Southern Laos with a total population of approximately 27,377 (2009) consisting of more than 4,700 households. The BCC Project is expected to restore connectivity in the biodiversity conservation corridors through targeted reforestation, enrichment planting, gap filling and natural regeneration. It is also intended to support the livelihoods of the population living inside the corridors by supporting the provision of small-scale infrastructure, the creation of Village Development Funds, and the implementation of village-scale livelihood activities.

[22] The Biodiversity Conservation Corridors is considered the follow-up suite of programs to the Biodiversity Conservation Corridors Initiative.
[23] Grant Agreement of $20.0 million was signed between the Government of Laos and the Asian Development Bank on 14 February 2011.

Additional financing estimated at $12.84 million from the Forest Investment Program to the BCC Project was provided in 2016.[24] The activities proposed under the new grant are expected to complement Laos' BCC Project's efforts to improve biodiversity conservation within the corridor and connectivity between National Protected Areas and other protection and production forest areas. The Forest Investment Program area will be under taken in approximately 20 additional villages.[25]



USAID undertook a site visit in March/April 2011 to Laos southern BCI corridor between Dong Hua Sao and Xe Pian National Protected Areas. Findings from the Laos trip and other BCI trip visits are reported in USAID's MDB Reports to Congress – April 2011, October 2011, April 2012 and April 2013.

USAID is continuing to follow the GMS BCC program based on concerns over program effectiveness in maintaining priority biodiversity conservation corridors and sustainable livelihoods following a series of desk-reviews and monitoring visits to ADB's BCI/BCC projects in Cambodia, Vietnam, Thailand and Laos. The Laos Biodiversity Corridor between Dong Hua Sao and Xe Pian National Protected Areas has one of the highest development pressures among protected areas. The area is bisected by Road 18A which is being upgraded to accommodate increased traffic flow and connects Da Nang, Vietnam and Mawlamyine-Myawaddy, Myanmar.

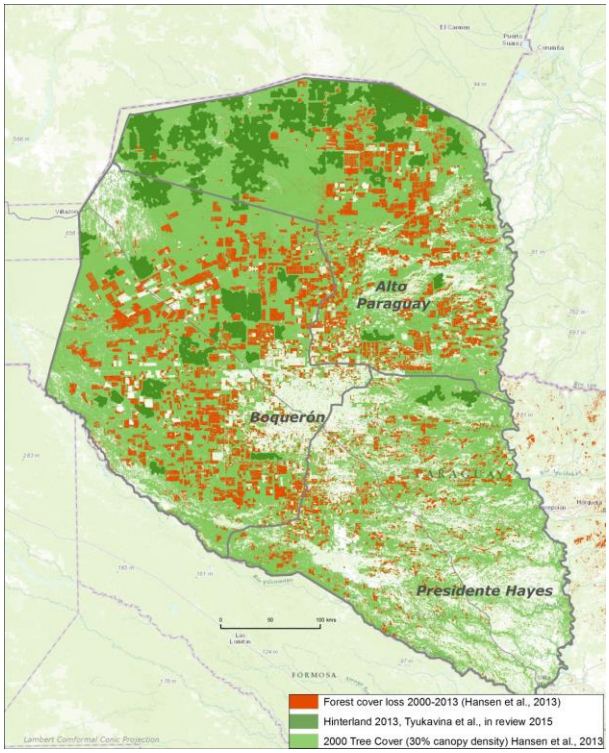
Paraguay - Minerva S.A. Beef (IFC)

Minerva S.A. is one of the largest meatpackers in Latin America and the second largest beef exporter in Brazil, with a 22 percent market share on beef exports. The company operates in Brazil, Paraguay and Uruguay with plans to expand activities into Colombia.[26]

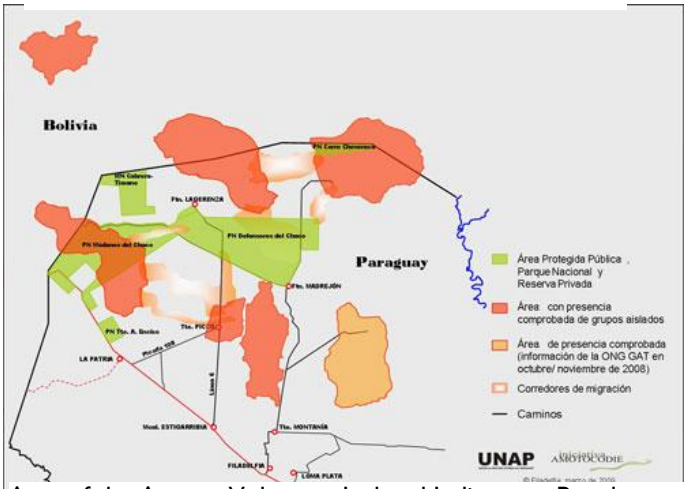
[24] http://www.adb.org/projects/40253-036/main#project-documents
[25] http://www.adb.org/sites/default/files/project-document/152872/40253-036-earf-01.pdf
[26] http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/651aeb16abd09c1f8525797d006976ba/4627ff31488cb32685257b3

Total project cost is estimated at $290 million over three years. The IFC financed the project in 2013.

The Paraguayan Gran Chaco[27] is home to 13 groups of indigenous peoples, which represent 31 percent of its population.[28] The land rights of these indigenous peoples are not officially protected, as they lack legal titles to their traditional territories. Large sections of the Paraguayan Gran Chaco are being deforested by cattle ranchers from Brazil with subsequent encroachment into indigenous peoples' traditional territory. According to a satellite analysis, 232,000 ha and 286,742 ha were deforested in 2010 and 2011, respectively.[29] In 2013, 236,869 ha[30] were deforested primarily due to investment of Brazilian and Uruguayan cattle ranchers and, to a lesser extent, oil and gas exploration and land speculation. The Paraguayan Gran Chaco is currently the source of approximately 50 percent of the cattle used in Minerva's Paraguay slaughterhouse operations and, because of zero deforestation laws in the east of the country, this share is increasing rapidly.



Forest cover loss in the Paraguayan Chaco 2000-2013.



Area of the Ayoreo Voluntary Isolated Indigenous Peoples.

USAID reviewed this project prior to financing and details can be found in the October 2013 MDB Report to Congress. USAID's concerns focuses primarily on Minerva's operations in Paraguay, including Minerva's secondary and tertiary

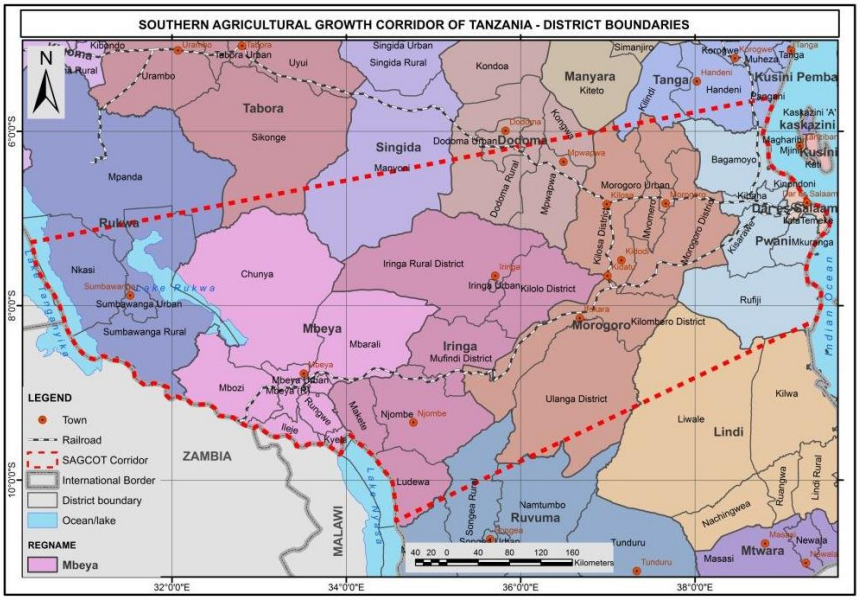
[27] The Gran Chaco is a vast plain that extends through northern Argentina, southeastern Bolivia, northwestern Paraguay and into a small area of southwestern Brazil.
[28] https://www.ifad.org/documents/10180/6f8cdf30-12a7-479a-9e02-aee9be26f784
[29] http://www.redd-monitor.org/2013/04/10/can-redd-save-the-thorn-forests-of-the-paraguayan-chaco/; http://www.nytimes.com/2012/03/25/world/americas/paraguays-chaco-forest-being-cleared-by-ranchers.html?pagewanted=all&_r=0; http://www.wcs.org/where-we-work/latin-america/paraguay.aspx.
[30] http://southern-connections.com/wp-content/uploads/2014/09/Research-Paraguayan-Chaco.pdf; Cardozo, Romina, Fenando Palacios, Jazmin Caballero y Fabiana Arévalos. Informe Annual – 2013. Resultados del Monitorea de los Cambios de Uso de la Tierra, Incendios e Inundaciones Gran Chaco Americano. Iniciativa Redes Chaco. Guyra, Paraguay.

suppliers of cattle and impacts on indigenous peoples and biodiversity. In 2015, USAID conducted a preliminary monitoring review of Minerva's operations in Paraguay based on the potential for significant environmental and social impacts. A more inclusive monitoring visit focusing on the intersection of the project with indigenous peoples is planned for November 2016. The information obtained from the preliminary review and the follow-up visit will be used to provide recommendations to Minerva, World Bank Group and Government of Paraguay. A trip report will be made available to the public.

Tanzania - Southern Agricultural Growth Corridor of Tanzania (WB)

The Southern Agricultural Growth Corridor of Tanzania (SAGCOT) program is an inclusive, multi-stakeholder partnership to rapidly develop the region's agricultural potential. The SAGCOT program is a multi-donor initiative with USAID, DFID, UNDP, and the Government of Tanzania contributing to a trust fund. The SAGCOT Program originated at the World Economic Forum's Africa Summit in 2010.

The World Bank proposed financing of the SAGCOT Investment Project will support specific aspects of the SAGCOT program. The Investment Project is designed to support innovative strategies for generating agricultural growth and poverty alleviation through building successful partnerships between smallholder communities and agribusiness investors. The project's development objective is to increase the adoption of new technologies and marketing practices by smallholder farmers through expanding and creating partnerships between smallholder farmers and agribusinesses in the Southern Corridor of Tanzania. It is expected that about 100,000 smallholder farming households (some 500,000 people) and at least 40 agribusiness operators will benefit from the Investment Project. Indirect beneficiaries will be smallholder farmers not directly supported by the project, and other agribusinesses in the value chains (e.g., input suppliers, transporters and traders).[31]



SAGCOT Corridor demarcated by red-dashes (---------).

[31] http://www.worldbank.org/projects/P125728/tanzania-southern-agriculture-growth-corridor-investment-project?lang=en

In March 2016, the World Bank board approved $70 million credit for project financing. The U.S. Government abstained on the vote because of inconsistencies with the Pelosi Amendment and a waiver request for the World Bank's Indigenous Peoples Policy.

USAID continues to monitor this project based on the indigenous peoples and land tenure issues, and to lesser extent on water resources management issues that USAID identified in its earlier review (MDB Report to Congress – April 2016) of the proposal.